

## **GLOBAL STRATEGY OF AUTOMOTIVE ENTERPRISES AND THE INSTRUMENTS USED IN ITS FORMATION**

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**Abstract:** Enterprises that apply international expansion at a certain stage of its development are forced to accept a strategy whose aim is the coordination of activities at a worldwide level. This is enabled by globalization. Its realization requires the conscious use of defined instruments. This paper attempts to identify and analyze the influence of these instruments on the general shape of the global strategy.

**Key words:** global strategy, globalization, internationalization

### **Introduction**

One of the possible ways to develop an enterprise is to take a decision about the internationalization of operations and take on a global strategy. The choice of the global strategy means the necessity to manage in a world environment that is geared towards foreign markets, global competition, as well as abilities associated with the globally distributed factors of production [1]. This strategy requires intensive involvement in operations on foreign markets, which means intensive and multi-stage international ties with regard to the enterprise [2].

Apart from the internal factors that result from the evolution of the competence of the enterprise, the general shape of the global strategy is also influenced by external factors which are connected with the surrounding area. The greatest significance is attributed to the instruments with which the defined strategy is formed [3]. This paper identifies and analyses the instruments that are used by automotive producers in the formation of their strategy for global development.

### **Internationalization of operations and the global strategy**

The process of internationalization is understood in this paper as when an enterprise crosses the borders of the home country while running its business operations with the aim of ensuring better conditions for development. This greatly depends on the nature of the market sector in which the company functions in. Generally speaking, these sectors can be divided into those of a domestic nature and those of a global one. In the sector of a domestic nature the competitive position of an enterprise in a given country is separate from its position on foreign markets. In the sector of a global nature the competitive position of an enterprise on both domestic and foreign markets is strongly tied and interdependent [4].

The automotive sector alongside the electronic and pharmaceutical sectors is regarded as a typical example of the global sector [5]. Automotive enterprises indicate great sensitivity towards changes emerging in the international area of competition. Their development is also dependent on external factors that are associated with the market area of the enterprise, as well as referring to the enterprise itself and the strategic decisions taken with regard to internal factors.

International expansion means the necessity to be focused on foreign markets and compete in a global environment. The global strategy must be designed in such a way as to enable the maximum use of the market potential and that of the enterprise itself.

The realization of each strategy including the global one requires the conscious acceptance of specific tools which are referred to in this paper as the *instruments of the global strategy*. In the automotive sector five of these can be distinguished [5]:

- participation on the global market,
- global products and services,
- global location of operations,
- global marketing,
- global competitive steps.

### **Participation on the global market**

The application of a global strategy requires participation on the global market. Global participation requires the control of a significant share of the world market, presence on markets of strategic importance, as well as a relatively balanced dispersal of operations and markets.

In the automotive sector the strife for global balance is clearly visible. This means that enterprises avoid the concentration of business activities in only one country or region and spread their business to as many foreign markets as possible. The ideal state is seen to be the achievement of participation in a given country that relates to the participation of that country on the world market in approximate percentage terms. An imbalanced level of participation enables the full use of the other instruments associated with a global strategy.

The achievement of significant participation on the world market is only feasible for transnational corporations whose establishment was the result of decades as regards the process of concentrating capital. The mega-concentration of property and capital forms a strong barrier against entry into the sector in the case of new competitors and leads to the collapse of weak competitors, as a result of which the number of business units in the sector is constantly dropping. The mega-concentration of capital has been undergoing a period of dynamism as a result of an unprecedented scale of mergers and takeovers that were started by globalization [6]. As a direct consequence of this, business units are formed whose revenues are often comparable to the level of GDP of smaller countries [7].

In the case of automotive producers an increasing level of importance is attached to the necessity of achieving a significant share of strategic markets as the competitive advantage gained there can be strengthened on a global level. There has been an increasing level of interest in new markets of late, which in the light of several or more years could be crucial to the competitive position on the world market. Undoubtedly, such markets include regions like the Far East, South America and East Europe. At present, they do not constitute significant resources of production. Most cars are still produced in the countries of origin regarding the strongest producers e.g. USA, Japan, Germany and France.

## **Unification and standardization as instruments in the formation of the global product**

Another instrument of global strategy is the degree of application in terms of products and services on a global scale. The creation of a fully standardized product that is identical in all foreign markets is very difficult. The process of standardization in the automotive sector is the normalization of the base product, or many of its elements, while at the same time differentiating and adjusting its side effects to the specific needs of clients on particular markets. Up until recently the automotive sector was characterized by a low level of standardization. Only the fast development of the process of internationalization of automotive producers enabled the creation of a product that could be offered all over the world in an unchanged or slightly unchanged version. The Ford Escort is viewed to be the ancestor of the global car, which was designed in 1980 as "*The World Car*". It was produced in both the American market and the European market with slight differences in the design. A similar idea was the inspiration behind the realization of the Sierra/Tempo models two years later, as well as further generations of the Mondeo/Contour models in 1994. In this way, the era of developing the concept of the global car started in the automotive sector, which every firm that aspires to be a world player must develop within the framework of its strategy on globalization.

The realization of the idea of the global product requires significant changes in the structure of the organization in question. This can be exemplified by the Ford company. In 1994, restructuring was carried out that involved transferring the competence of regional branches to that of specially formed global teams- the so-called "*Platform Teams*". Their activities included designing basic car models that would satisfy the common requirements of clients all over the world. A rather small number of higher ranked managers were granted the competence to take decisions on a global scale, while the lower ranked management staff gained greater freedom in the area of taking decisions at a regional level.

The significant dispersal of functions accompanied the realization of the Ford Mondeo model. The designing of the model that was meant for the European market was entrusted with a team in Cologne in Germany that worked in real time with a team from Michigan in the U.S.A. Modern infrastructure for communication and the company's IT system enabled and facilitated the coordination of the work of these teams. As a result of this cooperation the first global car was produced that took the common tastes, needs and requirements of clients all over the world into account, as well as regional diversities. The unification involved the most essential elements of a car in terms of costs (floor panel, engine, gearbox, suspension, as well as accessories), while the variation was confined to style and equipment. Work on the project of the global car took the Ford company as long as five years and the operations on both European and US markets showed a certain degree of variation, or in other words, varying range of the product (predestination), various teams of engineers and the cars were produced in different factories. The aim of the Ford company was the total synchronization of activities within the framework of the worldwide organization, so that in the future a similar project could be realized with lower outlays and involving less time.

Attempts to create a standardized global product are undertaken by an increasing number of enterprises. In the Fiat company a project was realized under the name of *The 178 Project*. As a result of this varied forms of the same car were created mainly designed for the developing markets. In the case of Fiat the concept of the global car is more strongly associated with the dispersal of production activities than in the case of its competitors. Production facilities have been located in umpteen different countries around the world.

## Global location of activities

The decision with reference to the location constitutes one of the most essential strategic choices of an enterprise that is engaged in expansion abroad. Each link in the value chain can undergo internationalization. The decision about the location must be viewed through the prism of the benefits that it can bring for the enterprise. The common conviction is that the most important criteria for choosing a country to locate production activities is the comparative advantage, particularly the low costs of raw materials and labour. In reality, apart from the direct costs of labour great significance is attached to tax benefits and other forms of aid from the governments of the countries involved. Such essential factors are: the quality of processing, transportation and IT infrastructure, qualifications of the labour force, as well as economic and political risk. The cost advantage of a country is not only the result of direct costs, but should also be associated with productivity.

The internationalization of the value chain allows for the use of various domestic factors, as well as the optimization of the production and distribution networks. All types of business activity have an impact on the competitive position of the enterprise operating on a global scale. The value chain of an enterprise is strongly associated with its international environment. The effectiveness of the whole chain can be improved by both strengthening each link and the connections between them. If we accept that the value chain of car producers is the flow of various activities carried out by the enterprise with the aim of adding value, then the main functions can be divided into the following:

- pre-production function,
- production function,
- post-production function.

The pre-production function refers to activities aimed at preparation for the production of a new car model. This mainly refers to initial research of the market, decisions about the direction of designing and research and development. The production function is associated with the widely understood production activities. Their composition includes: supplies, the production sub-assembly and final assembly. The post-production function should be connected with distribution, as well as guarantee and post-guarantee services.

Each of the functions is placed in a specifically competitive environment that is characterized by diverse barriers of entry into a foreign market and other effects of costs. A complex optimization of the chain is not possible, as the enterprise usually has limited resources and skills. The enterprise in question must therefore look for a decisive advantage in the case of one or more functions.

In the automotive sector the place of location for R&D are the highly developed Triad countries. This is mainly due to the qualified personnel that is the source of technological innovation. Therefore, the majority of functions connected with the work of R&D are very often located in the mother country. Domestic facilities constitute the decision centre, whereby the organization and competence of R&D centres located abroad are under its control. Car producers note the necessity to run research on strategic markets and use the potential of the local workers. For the proper functioning on a certain foreign market specific and non-transferable knowledge is essential that enables a better understanding of the needs of these markets.

The production functions are more strongly influenced by internationalization than the pre-production functions. Their range of activities include the production of sub-assembly, complete production of cars, as well as various methods of assembly. The problem of locating production activities abroad is very complex. Taking investment decisions has first and foremost a micro-economic nature, although foreign investment is largely formed by

macro-economic factors in the operating environment of the enterprise. This can include the exchange rate. This determines the relative level of price on a given market and therefore influence the competitiveness of the enterprise in question. Furthermore, production (in comparison with assembly) means the necessity of engaging greater amounts of material resources abroad, while also *technology transfer* and the accumulation of experience and specific knowledge about local markets. The most important problems are the issues of production quality, productivity, management of production systems and systems of supply. These determine the effectiveness of the functioning of the enterprise on a given foreign market at a higher level than the low costs of work in developing countries. Due to this reason, production activity in the automotive sector is most often located in highly developed countries, while in newly industrialized and developing countries producers restrict themselves to sub-assembly on the basis of imported materials.

The main motives for locating production activities beyond the borders of the mother country are above all the following: lowering costs, improvement of product quality, as well as strengthening the preferences of clients and the competitiveness of the enterprise in question. Global attitudes enable the full use of the internationalization of activities. It allows for the reduction of costs that not only results from the lower costs of labour and raw materials, but also the connection of identical operations and the elimination of repeated operations in many other countries. This is particularly important in the case of the production of cars, which is a very capital intensive type of activity where there is a necessity for a great deal of concentration of production to achieve the required profitability.

The post-production functions e.g. distribution and guarantee, as well as post-guarantee services undergo internationalization the earliest and to the greatest degree. The post-production function involves low risk and the possibility of easy withdrawal from the market. The connections in this case do not have to be long lasting. In pursuing the limitation of risk in business on markets of unstable economic and political situations, or where a market is not of large proportions, then an enterprise can pull out of creating its own channels of distribution. Sales on foreign markets in this type of case are realized through the medium of middlemen.

## Global marketing

The application of the concept of global marketing is justified when it is possible for many countries with identical characteristics to accept all or many elements of the *marketing-mix*. Global marketing does not only involve standardizing the marketing process itself, but also the standardization of the ways of analyzing the market, as well as the principles of working out operational marketing plans.

Each element of the *marketing-mix* – designing the product, positioning the product as well as the trademark, price, promotion and distribution can undergo globalization. As in the case of other instruments of the strategy of internationalization, global marketing should be applied in a flexible way. Some elements of the *marketing-mix* undergo the processes of globalization to a greater degree than others. Not many marketing programmes can be applied without alteration all over the world. A large degree of standardization is characterized by the price of a car, whereas promotional activities are usually varied and take account of the varied expectations of the clients. A large variation means high costs for the enterprise and thus it is necessary to find a balance between global standardization and local adjustments. Global marketing does not only mean standardization of all its elements but also involves a varied global approach to marketing strategies and programmes that connect flexibility with standardization [5].

The global marketing applied enables the achievement of potential benefits that involve the following:

- reduction of costs,
- improvement of the effectiveness of the programmes,
- strengthening of customer preferences,
- increasing competitiveness.

The reduction of costs results from the elimination of the functions that are repetitive. The savings are tied with among other things, the lower rate of unemployment, as well as the use of the same materials for the production of TV commercials. Furthermore, marketing activities can be concentrated on one instead of many advertising campaigns. Global marketing is of great significance for the standardization of consumer tastes around the world. It is directed towards the global recognition of a product. Customer preferences are also strengthened.

In the automotive sector the concept of the global product must correlate with the idea of the standard product. The differences should refer to secondary features. The defined model of a car is often sold in foreign markets under various names which are better suited to the specifics of a regional market.

The essential task of global marketing *positioning of the trademark on a worldwide scale*. The positioning involves directing the product in question towards a strictly defined group of clients by using the differences (or similarities) in terms of their motivation. Swedish cars for instance are seen to be safe, German ones such as Volkswagen or Audi as reliable and durable, while Mercedes and BMW are seen to be prestigious. French cars (especially Peugeot) are regarded as elegant, Japanese cars are famous for high quality and reliability, whereas American cars are the synonym of comfort. Each concern tries to create features for its products, which could be widely associated with a specific trademark. Most car producers include the strife for the standardization of marketing steps in their marketing programmes that is aimed at facilitating the recognition of the trademark around the world. Volkswagen for example, does not only sell its cars on the foreign markets under the same trade name, but also very rarely moves away from common names for particular models. Some firms sometimes make products available on various markets under various trade names. For instance, the Nissan company initially exported its products under the name of Datsun and the worldwide brand name of Nissan began to gradually come in at the beginning of the 1980s. The aim of these changes was to create a unified image of the firm on a global scale. This objective was achieved but the introduction of the new brand name confused many potential clients and consequently sales fell, as a result of which the firm incurred huge costs in global adjustment activities.

**Global advertising.** Car producers are associated with huge financial outlay. An example of this is the Ford company, which in the case of promotion activities and the advertising campaign for the Mondeo/Contour models allocated a record figure in the history of the world motoring industry for a single product -that of \$100m. The high costs are associated with the necessity to allow for the diversity in regional target markets. An advertisement which strongly emphasizes the country of origin with regard to a car brings little benefit to the country itself. For instance, Volkswagen in advertising its products in the U.S.A. emphasized the word *Fahrvergnügen*, which means *a pleasure to drive* and this image became long lasting on the U.S. market. The emphasis of these features was unnoticed on the German market.

**A sales promotion** is one of the least susceptible elements of marketing to the processes of globalization mainly due to its tactful short term nature. It usually involves a single activity

that is directed towards the achievement of a specific effect by using the patterns that have been tried and tested on other foreign markets.

### **Globally competitive moves**

The final instrument of the global strategy is integrated in terms of worldwide competitive moves. An important element in this case is the identification of global competitors. Analysis should be carried out on the strong and weak points of the competitors and an appropriate tactic for each one could be as follows:

- attack,
- avoiding direct rivalry,
- cooperation,
- takeover.

Theoretically, the best way to weaken the competitive position of a competitor is a direct **attack** on many markets at the same time. In the automotive sector, this is difficult to realize due to the high concentration of capital. As the example of Japanese producers shows, a better tactic would be a coordinated sequence of attacks, thus enabling the firm in question to deny its competitor its previously held market position in an unnoticeable way.

**Avoiding competition** involves entering domestic niche markets that provide shelter from global competitors. In the automotive sector this strategy can not be applied successfully.

**Cooperation with competitors** involves the creation of *joint ventures* and strategic alliances. However, a *joint venture* can in some cases limit the development potential of an enterprise, thus limiting the possibility of applying a truly integrated global strategy. It is easier to coordinate business when an enterprise functions on the market as an independent globally integrated system than as a partner in a *joint venture*. That is why greater attention is paid to alliances that allow more freedom in the activities of their partners, which quite frequently does not involve mutual capital.

In the automotive sector an increase in the amount of alliances took place at the beginning of the 1980s. Quite often these were alliances between American and Japanese producers. In this period the following alliances were formed: GM-Toyota, GM-Suzuki, GM-Isuzu, Ford-Mazda, Chrysler-Mitsubishi. A common feature of these ties was the fact that the products of the Japanese producers patched up the holes in the trading offer of the American producers. Japanese producers specialized in the production of small cars, which their American counterparts did not provide in their trading offer. Such alliances as these were therefore on a complementary basis. These alliances allowed the Japanese firms to get around the import limits and strengthen their position on the US market. The next step was to gradually become more independent on this market and set up their own subsidiaries. These alliances enabled the Japanese companies to command over 30% of the US market.

The close cooperation between Mazda and Ford companies became one of the most spectacular examples of cooperation that is mutually beneficial. On the basis of the agreements reached, Mazda cars in Japan were sold under the brand name of Ford, while the Ford cars were sold as Mazda cars in the USA. In the 1980s, sales of Mazda cars started to be sold under the brand name of Ford through its European subsidiary. The afore-mentioned alliance was regarded by the Japanese Ministry of Trade and Industry (MITI) as the most desirable model of a complementary alliance that had ever taken place between Japanese and American companies [8].

In certain conditions, an alliance can become an optimally economic form of activity and competition [9]. The best way to eliminate competitors is **takeovers**. From a global point of view, takeovers provide additional benefits that result from the geographical expansion on the market.

## Summary

In sum, an essential instrument of a global strategy is that of balanced participation on the world market. Participation must be built with regard to the potential contribution towards global profits for the whole organization and the strengthening of the global position of the enterprise.

Unification and standardization are instruments, which enables the creation of a product that is adjusted to the common needs and requirements of clients all over the world. These instruments lead to the reduction of costs. They also enable the achievement of better economies of scale. This in turn allows for its competitiveness to be improved, which is the basic factor in gaining a competitive advantage on a market.

An essential instrument of a global strategy constitutes the optimal location of activities in connection with the flexibility of organization and production systems. Appropriate decisions about the location can increase the level of competitiveness of car producers.

Another instrument is the standardization of attitudes towards marketing activity. This enables the achievement of benefits such as: reduction of costs, improvement of the effectiveness of marketing programmes, strengthening customer preferences and increasing competitiveness.

The final instrument of global strategy to be taken separately refers to competitive steps that are very much integrated on a global scale. In the case of automotive enterprises priority is given to the identification and analysis of competitors, followed by tactics that are appropriate from a global point of view.

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